

## 7. Performance Appraisal including 360 degree performance appraisal

Performance Appraisal is the process of evaluation of an employee at higher level by some qualified persons. It is the systematic evaluation of the performance of employees and to understand the abilities of a person for further growth and development.

Productivity implies both concern for effectiveness and efficiency, effectiveness refers to goal accomplishment. Efficiency evaluates the ratio of inputs consumed to outputs achieved. The greater the output for a given input, the greater the efficiency.

Appraisals are essential for making many administrative decisions: selection, training, promotion, transfer wage and salary administration etc. Besides they aid in personnel research.

**“ According to Edwin B. Flippo** *"Performance evaluation is the systematic, periodic and so far as humanly possible an impartial rating of an employee's excellence in matters pertaining to his present job and to his potentialities for a better job."*  
**According to Dale Yoder** *"Personnel appraisals refer to the formal procedure used in working organization to evaluate the personalities and contributions and potential of group members."*

Therefore performance appraisal is the process of assessing employee performance by way of comparing present performance with already established standards which have been already communicated to employees, subsequently providing feedback to employees about their performance level for the purpose of improving their performance as needed by the organization.

The development of performance appraisal has four distinct phases. It is called **TEAM (Technical, Extended, Appraisal and Maintenance)** approach. Performance Appraisal is reviewing past performance, rewarding past performance, goal setting for future performance and employee development.

### Characteristics of Performance Appraisal

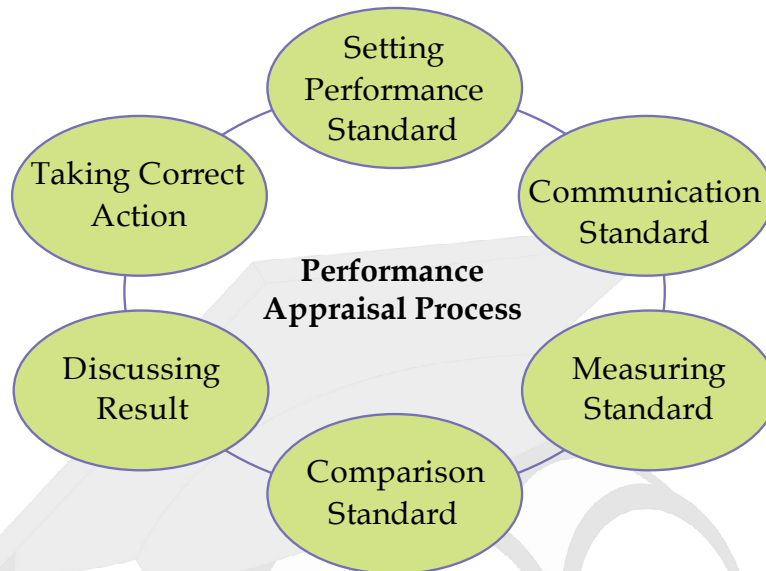
- Performance appraisal is a systematic evaluation of an employee strengths and weakness in terms of job requirement.
- It is a continuous process.
- It is process of assessing the performance in a certain steps.
- The main objective of performance appraisal is to provide evaluation of the capabilities of employee with a forward look towards future needs.
- Formal procedures and actual data are used in this study.

### Objectives of Performance Appraisal

- To maintain records in order to determine compensation packages, wage structure, salaries raises, etc.
- To identify the strengths and weaknesses of employees to place right men on right job.
- To maintain and assess the potential present in a person for further growth and development.

- To provide a feedback to employees regarding their performance and related status.
- It serves as a basis for influencing working habits of the employees.
- To review and retain the promotional and other training programmes.

### Performance Appraisal Process



**1. Setting Performance Standard :** The performance Appraisal begins with the settlement performance standard. These are developed with the help of job analysis and job description. Performance standard are commonly based in individual traits, cost- related outcomes and behavioral criteria. Behavioral criteria includes work quality, honesty, teamwork, job knowledge, adaptability, leadership quality, learning, safety, judgment etc.

**2. Communication Standard :** It is the responsibility of the management to communicate the standards to all the employees of the organization. The employees should be informed and the standards should be clearly explained to the employees. This will help them to understand their roles and to know what exactly is expected from them.

**3. Measuring Standard :** The third step in the appraisal process is the measurement of performance. It is a continuous process which involves monitoring the performance throughout the year. This stage requires the careful selection of the appropriate techniques of measurement, taking care that personal bias does not affect the outcome of the process and providing assistance rather than interfering in an employees work.

**4. Comparison Standard :** Actual performance is compared with the predetermined performance standard. The comparison tells the deviations in the performance of the employees from the standards set. The result can show the actual performance being more than the desired performance or, the actual performance being less than the desired performance depicting a negative deviation in the organizational performance. It includes recalling, evaluating and analysis of data related to the employees' performance.

**5. Discussing Result :** The results of appraisal should be communicated to the subordinate so that they know their good as well as weak point. Thus employees will be motivated to improve themselves. The discussion of the appraisal can have negative as well as positive motivational consequence.

Performance appraisal feedback by managers should be in such way helpful to correct mistakes done by the employees and help them to motivate for better performance but not to demotivate. Performance feedback task should be handled very carefully as it may leads to emotional outburst if it is not handing properly. Sometimes employees should be prepared before giving them feedback as it may be received positively or negatively depending upon the nature and attitude of employees.

**6. Taking Correct Action :** The final step in the appraisal is the initiation of corrective action when necessary. Training, coaching, counseling, etc. are example of corrective action that helps to improve performance.

### Performance Appraisal Biases

Managers commit mistakes while evaluating employees and their performance. Biases and judgment errors of various kinds may spoil the performance appraisal process. Bias here refers to inaccurate distortion of a measurement. These are:

**1. First Impression (Primacy Effect) :** Raters form an overall impression about the rate on the basis of some particular characteristics of the rate identified by them. The identified qualities and features may not provide adequate base for appraisal.

**2. Halo Effect :** The individual's performance is completely appraised on the basis of a perceived positive quality, feature or trait. In other words this is the tendency to rate a man uniformly high or low in other traits if he is extra-ordinarily high or low in one particular trait. If a worker has few absences, his supervisor might give him a high rating in all other areas of work.

**3. Horn Effect :** The individual's performance is completely appraised on the basis of a negative quality or feature perceived. This results in an overall lower rating than may be warranted. "He is not formally dressed up in the office. He may be casual at work too!"

**4. Excessive Stiffness or Lenience :** Depending upon the raters own standards, values and physical and mental makeup at the time of appraisal, rate may be rated very strictly or leniently. Some of the managers are likely to take the line of least resistance and rate people high, whereas others, by nature, believe in the tyranny of exact assessment, considering more particularly the drawbacks of the individual and thus making the assessment excessively severe. The leniency error can render a system ineffective. If everyone is to be rated high, the system has not done anything to differentiate among the employees.

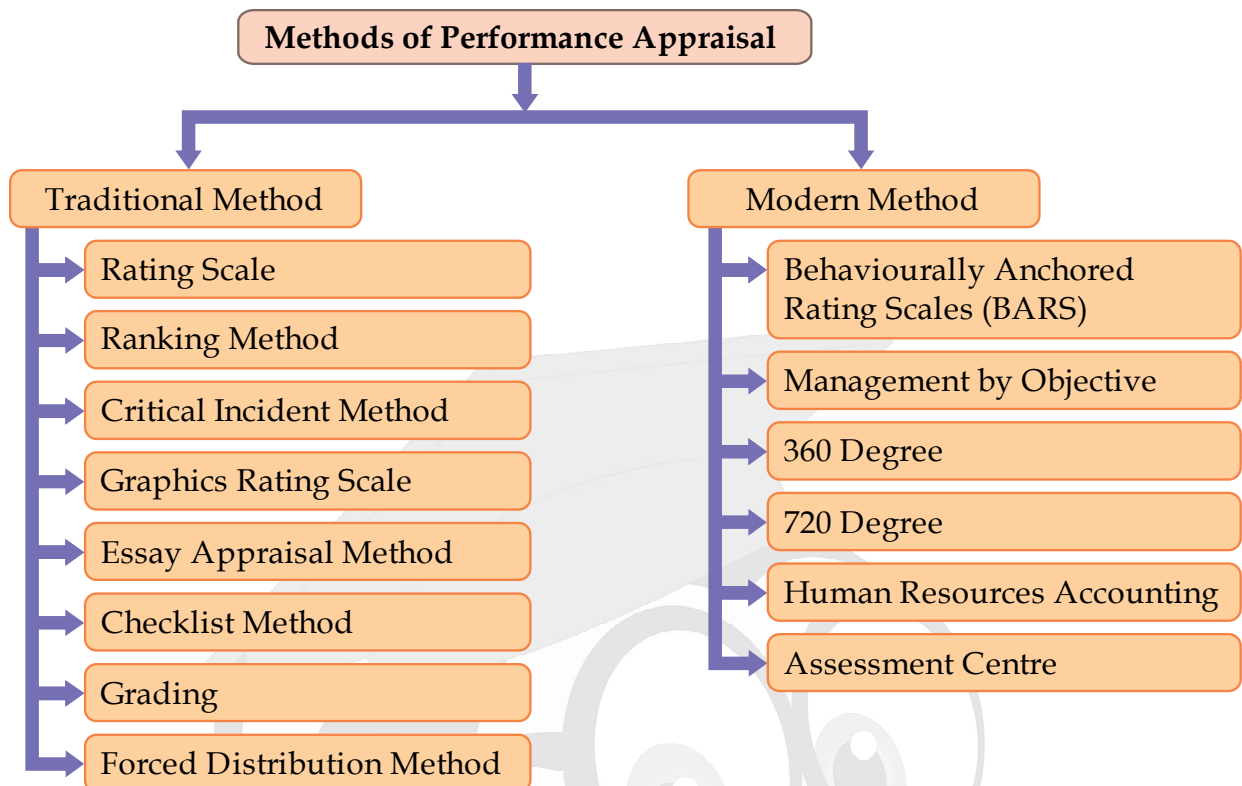
**5. Central Tendency :** Appraisers rate all employees as average performers. That is, it is an attitude to rate people as neither high nor low and follow the middle path. For example, a professor, with a view to play it safe, might give a class grade near the equal to B, regardless of the differences in individual performances.

**6. Personal Biases :** The way a supervisor feels about each of the individuals working under him - whether he likes or dislikes them - as a tremendous effect on the rating of their performances. Personal Bias can stem from various sources as a result of information obtained from colleagues, considerations of faith and thinking, social and family background and so on.

**7. Spillover Effect :** The present performance is evaluated much on the basis of past performance. "The person who was a good performer in distant past is assured to be okay at present also".

**8. Recency Effect :** Rating is influenced by the most recent behavior ignoring the commonly demonstrated behaviors during the entire appraisal period.

### Methods of Performance Appraisal



#### (A) Traditional Method

This method is based on studying the personal qualities of the employees. It may include knowledge, initiative, loyalty, leadership and judgment.

**1. Rating Scale :** Depending upon the job of employee under this method of appraisal traits like attitude, performance, regularity, accountability and sincerity etc. are rated with scale from 1 to 10. 1 indicates negative feedback and 10 indicates positive feedback as shown below.

##### Attitude of employee towards his superiors, colleagues and customers

1	2	3	4	5	6	7	8	9	10
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Extremely poor

Excellent

##### Regularity in the job

1	2	3	4	5	6	7	8	9	10
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Extremely poor

outstanding

Under this method of performance appraisal, employee may be assessed by his superiors, colleagues, subordinates or sometimes by his customers which all depends on nature of the company or job which is added where the employee is working.

Appraiser is a person who appraises employee will give rating for every trait given by marking or choosing number basing on his observation and satisfaction.

Ultimately all numbers chosen or marked will be added to determine highest score gained by employee. Employee who scored more points will be treated as top performer



following descending scored employees will be treated as low performer and the least scored employee will be treated as non-performers.

**2. Ranking Method :** Under this method, superior ranks his subordinates in order of their merit, starting from the best to the worst. The relative position of each employee is expressed in terms of his numerical rank. In this type of appraisal, individuals are ranked from highest to lowest.

Ranking can also be used for developmental purposes by letting employees know where they stand in comparison to their peers-they can be motivated to improve performance.

**3. Critical Incident Method :** This technique of performance appraisal was developed by **Flanagan and Burns**. "**The Critical Incident Technique**" appeared in the psychological bulletin. Flanagan (1954) defined the critical incident technique as a set of procedures designed to describe human behavior by collecting description of events having special significance and meeting systematically defined criteria. Flanagan originally used trained observers to collect critical incident identification.

The superior keeps a log of positive and negative examples (incidents) of subordinate's work related behavior. The basis of this method is the principle that there are certain significant acts in each employee's behaviors and performance, which make all the difference between success and failure in the job.

This method suffers however from the following limitations :

- Negative incidents may be more noticeable than positive incidents.
- The supervisors have a tendency to unload a series of complaints about incidents during an annual performance review session.
- It results in very close supervision which may not be liked by the employee.
- The recording of incidents may be a chore for the manager concerned, who may be too busy or forget to do it.

**4. Graphics Rating Scale :** In 1922, Paterson working with the employees of the Scott Company developed a graphic scale to provide the reliability, consistency over time, usefulness and practicality.

Bradshaw in 1931 discussed improvements to the graphic rating scale that included "**behaviorism**" to anchor the scale. In 1972, Flynn told that the five to nine scale points result in the highest quality of ratings.

Under this method, core traits of employee pertaining to his job are carefully defined like Attitude, Knowledge of Work, Managerial Skills, Team Work, Honesty, Regularity, Accountability, Interpersonal relationships, Creativity and Discipline etc.

These traits are allotted with numerical scale to tabulate the scores gained by appraise (employee) in performance assessment relating to his job by appraiser (employer) and sum-up to determine the best performer. Appraiser ticks rating of particular trait depending upon his endeavor in his job. Score vary from employee to employee depending up on his performance levels and endeavor in his job.

### Example of Graphic Rating Scales Method

Attitude	5	4	3	2	1
Knowledge of Work	5	4	3	2	1
Managerial Skills	5	4	3	2	1
Team Work	5	4	3	2	1
Honesty	5	4	3	2	1
Regularity	5	4	3	2	1
Accountability	5	4	3	2	1
Interpersonal relationships	5	4	3	2	1
Creativity	5	4	3	2	1
Discipline	5	4	3	2	1

**5. Essay Appraisal Method :** It is the simplest evaluating method in which evaluator writes an explanation about employee's strength and weakness points, previous performance, positional and suggestions for his (her) performance improvement at the end of evaluation term. This kind of evaluation usually includes some parts of other systems to cause their flexibility

This technique is normally used with a combination of the graphic rating scale because the rater can elaborately present the scale by substantiating an explanation for his rating. While preparing the essay on the employee, the rater considers the following factors:

- Job knowledge and potential of the employee;
- Employee's understanding of the company's programs, policies, objectives, etc.;
- The employee's relations with co-workers and superiors;
- The employee's general planning, organizing and controlling ability;
- The attitudes and perceptions of the employee, in general.

**6. Checklist Method :** In this method, the evaluator has a list of situations and statements and compares it with employees. The checklist is a presentation of employee's characteristics and performance. The results can be quantitative and give weight to characteristics.

A typical checklist is given in the table below. After ticking off against each item, rater forwards the list to HR department. The HR department assigns certain points to each 'Yes' ticked. When points are allotted to the checklist, technique becomes a weighted checklist.

**7. Grading :** In this technique, the rater considers certain features and marks them according to a scale. The selected features may be analytical ability, cooperativeness, dependability, self-expression, job knowledge, leadership and organizing ability. These may be graded as e.g. A-Outstanding, B-Very good, C- Average, D-Fair, E-Poor and F-Very poor. The actual performance of an employee is then compared with these grades and he is allotted the grade which best describes his performance.

**8. Forced Distribution Method :** This is a ranking technique where raters are required to allocate a certain percentage of rates to certain categories (eg: superior, above average, average) or percentiles (eg: top 10 percent, bottom 20 percent etc.)

Both the number of categories and percentage of employees to be allotted to each category are a function of performance appraisal design and format. The workers of outstanding merit may be placed at top 10 percent of the scale; the rest may be placed as 20% good, 40% outstanding, 20% fair and 10% fair.

**(B) Modern Method**

**1. Behaviourally Anchored Rating Scales (BARS) :** BARS were introduced by **Smith and Kendall in 1963** with the attention of researchers concerned with the issue of reliability and validity of performance ratings.

This method is combination of the rating scale and critical incident techniques of performance appraisal. It is a tool that anchors a numerical rating scale with specific behavioral examples of good or poor performance.

Behaviorally anchored rating scales (BARS) have the following features:

1. Areas of performance to be evaluated are identified and defined by people who will use the scales.
2. The scales are anchored by descriptions of actual job behavior that, supervisors agree, represent specific levels of performance. The result is a set of rating scales in which both dimensions and anchors are precisely defined.
3. All dimensions of performance to be evaluated are based on observable behaviors and are relevant to the job being evaluated since BARS are tailor-made for the job.
4. Since the raters who will actually use the scales are actively involved in the development process.

BARS help rater focus on specific desirable and undesirable incidents of work behavior which can serve as examples in discussing a rating. BARS use behavioral statements or concrete examples to illustrate multiple levels of performance for each element of performance

**2. Management by Objective :** MBO (or management by objectives) is a technique credited by Peter Drucker, to describe a method of performance management that is based on the setting of clear and measurable objectives, and the use of those objectives to evaluate and review performance.

MBO comprises seven elements: strategic planning and hierarchy of objects, setting objectives, planning for action, implementation of MBO, control and appraisal, subsystems, and organizational and management development so it is also called SMBO.

**3. 360 Degree :** 360 degree feedback is also known as '**multi-source feedback**'. First developed at General Electric, US in 1992, the system has become popular in our country too. GE (India), Reliance Industries, Crompton Greaves, Wipro, Infosys, Thermax is using this method with great benefits.

It is a system in which employees will get feedback from all the people they work with. There are about 7 to 12 people who will fill out a form which is usually a feedback form. The contents of the form may vary from broad range competencies to work environment. The employee who receives the feedback will also be required to fill out a self-assessment which again might consist of the same components. This system is used to get an improved understanding of every one's strengths and weaknesses.

*There are three general reasons as to why an organization would go in for a 360 degree appraisal.*

- *To get a better view of the performance and prospective of future leaders.*
- *To have a broad insight of developmental needs of manpower.*
- *To collect more feedback so as to ensure justice to the job performed by the employees.*

In 360 degree appraisal system, the feedback is collected from managers, peers, subordinates, customers, team members etc. A survey is conducted to get close understanding of-on the job performance of the employees. A 360 degree appraisal has four stages in it :

- Self-Appraisal
- Superior's Appraisal
- Sub-ordinates Appraisal
- Peer Appraisal

**4. 720 Degree :** Rick Gal breath became dissatisfied with 360 degree reviews. Gal breath started using the 720 degree and defined it as a more intense, personalized and above all greater review of the upper level managers that brings in the perspective of their customers or investors, as well as subordinates.

As explained in a recent paper by Anupama et al., "720 degree performance appraisal is an integrated method of performance appraisal where, the performance of an employee is evaluated from 360 degrees (Management, Colleagues, Self and also customers) and timely feedback is given and performance is evaluated again based on the targets that are set.

Hence, 720 degree performance appraisal can be stated as twice 360 degree performance appraisal: once when the appraisal is done and the targets are set and the second where the feedback is given and the boss gives tips to achieve the goals. Hence, there is a pre and a post round of feedback."

**5. Human Resources Accounting :** The concept of human resource accounting was first developed by **Sir William Petty in 1691**. But research into true human resource accounting began in the 1960 by Rensis Likert.

Human resource accounting method tries to find the relative worth of these assets in the terms of money. In this method the performance appraisal of the employees is judged in terms of cost and contribution of the employees. The cost of employees include all the expenses incurred on them like their compensation, recruitment and selection costs, induction and training costs etc. whereas their contribution includes the total value added (in monetary terms). The difference between the cost and the contribution will be the performance of the employees. Ideally, the contribution of the employees should be greater than the cost incurred on them.

**6. Assessment Centre :** The assessment center method, in its modern form, came into existence as a result of AT and T Management Study by Bray, Campbell and Grant in 1974 Progress.

Generally, employees are given an assignment similar to the job they would be expected to perform if promoted. This review of potential is concerned with forecasting the direction in which an individual's career should go and the rate at which he is expected to develop. It is included basket exercises, group discussions, simulations of interviews with "subordinates" or "clients", fact finding exercises, analysis/decision making problems, oral presentation exercises, written communication exercises.

The major competencies that are judged in assessment centers are interpersonal skills, intellectual capability, planning and organizing capabilities, motivation, career orientation etc. assessment centers are also an effective way to determine the training and development needs of the targeted employees.